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TECH-98-193

GRC-98-43

3/23/98

TO: AIAM Technical Committee
AIAM Government Relations Committee

FROM: Gregory J. Dana
Vice President and Technical Director

RE: **CLIMATE CHANGE - Fuel Efficiency Tax Credits -
Meeting with the Administration - March 20, 1998 -
Summary**

On March 20, 1998, representatives of AIAM met with a group of Administration representatives on the President's Climate Change Budget, specifically the auto efficiency tax credit. A list of the attendees at the meeting is enclosed along with a proposal of how to compute the "baseline" fuel economy for determining the credits. This document was prepared by Charles Gray's office in EPA. EPA has cut the number of size classes down to four and then computed a sales-weighted fuel economy for each segment of the class based on a calculated 0-60 mph time. Members should review this carefully to see if it would be an acceptable basis for determining this credit.

The meeting went very well. The principles that our work group had agreed upon were pretty much covered by page two of the Administration proposal, so there was little to disagree on. The longest discussion was on whether the tax credit could be given to the manufacturer so it could be passed on to the consumer faster. I think they realized the benefit of this, but were somewhat hesitant to commit to this concept without further thought. We agreed to review the proposal and get back to the Administration.

Members should consider whether we want to hire someone to do an independent analysis of this proposal. The working group will likely discuss this issue in the near future.

GJD:amw



MARCH 20, 1998
MTG.

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**TAX CREDITS FOR PURCHASES OF
FUEL EFFICIENT VEHICLES**

Principles that guided the design

- The credit should encourage innovation -- not changes in consumer behavior.
- The credit should be based on a performance standard -- doubling or tripling fuel economy for its class.
- The credit should provide a level playing field.
- Fuel efficiency achievements should not be made at the expense of clean air.
- The incentive should be a temporary market boost.
- It should be administrable by the IRS.

The FY 1999 budget proposal

- The President's FY 1999 budget included two temporary tax credits for the purchase of highly fuel efficient vehicles.
 - *\$4,000 credit for vehicles with triple the base fuel economy for its class.*
 - *\$3,000 credit for vehicles with twice the base fuel economy for its class.*

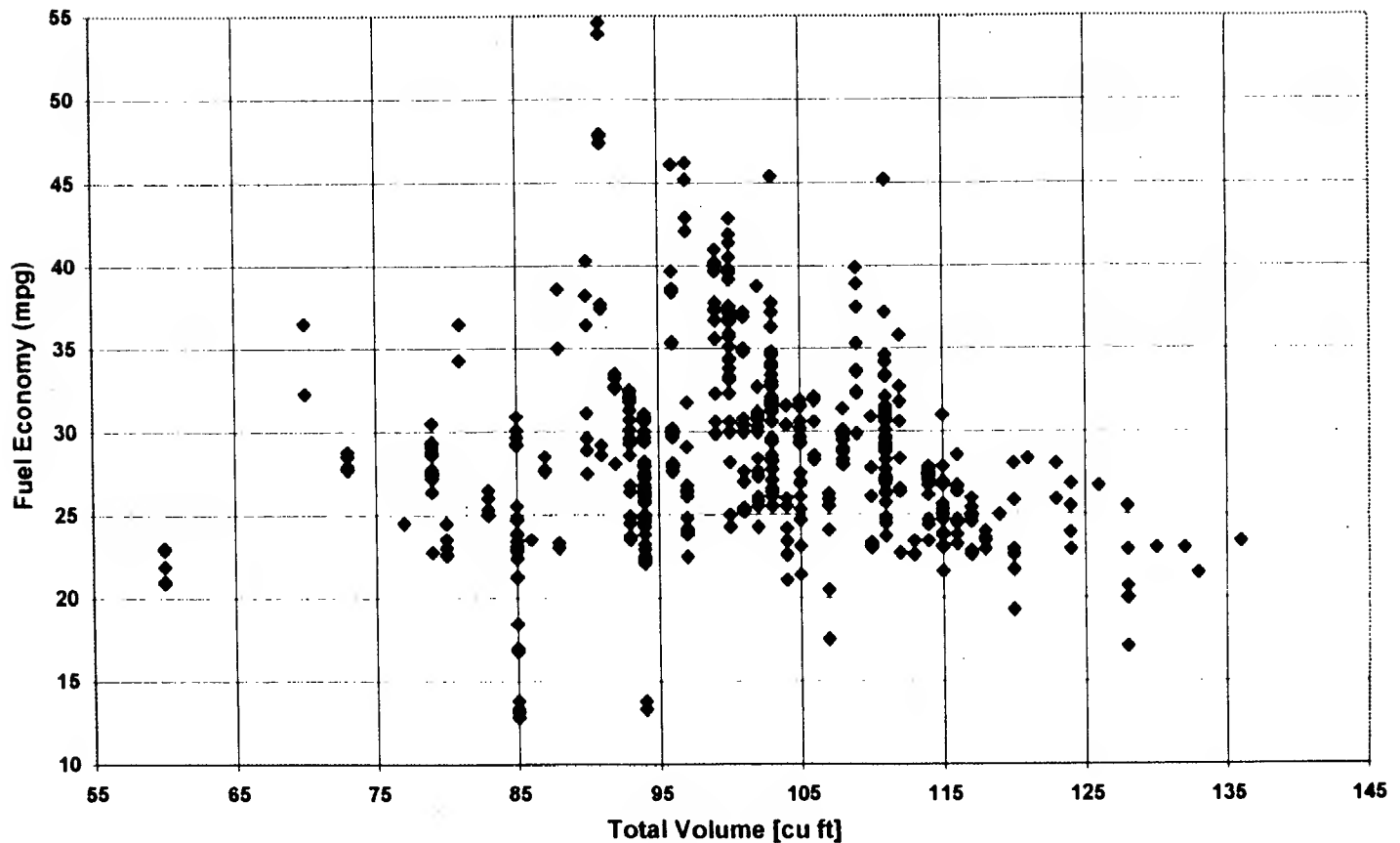
These credits would be available for all qualifying vehicles, including cars, minivans, sport utility vehicles, pickup trucks, and electric vehicles.

- The credits would be temporary.

Base fuel economy

- When the budget proposal was announced the “base fuel economy for the vehicle’s class” was not specified.
- Using interior volume to determine the baseline fuel economy was problematic because the relationship between fuel economy and interior volume isn’t very clear.
- Using volume alone to set the baseline would leave some cars with a huge hurdle while others with the same volume would be eligible with minor changes. Hence, there would not be a level playing field.

Spread in the 1998 Car Data



Baseline Design

Cars:

- Four volume-based classes. (unadjusted composite F.E. for 1998 MY)
- Within each class, fuel economy targets based on performance (0 - 60 time).

Fuel Economy Baseline for Cars				
0-60 Time (sec)	Two-seaters, minicompacts, subcompact sedans	Compact sedans, small wagons	Midsize sedans and wagons	Large sedans
8 or less	28.0	26.1	25.0	24.6
9	30.8	28.5	26.5	25.6
10	33.7	30.9	28.1	26.5
11	36.6	33.3	29.6	27.5
12	39.4	35.8	31.1	28.4
13	42.3	38.2	32.7	29.4
14	45.1	40.6	34.2	30.3
15	48.0	43.0	35.8	31.3
16 or greater	50.9	45.4	37.3	32.3

- Table shows baseline fuel economy for the four car classes across performance times.
- Eligible vehicles must meet targets that are two or three times these base numbers.

How Far the 1998 Cars Would Need to Stretch for the 2X Credit

2X stretch	Two-seaters, minicompacts, subcompact sedans (%)	Compact sedans, small wagons (%)	Midsize sedans and wagons (%)	Large sedans (%)	Grand Total (%)
1.4-1.6	0	1	0	0	1
1.6-1.8	2	5	1	1	9
1.8-2	5	10	15	4	34
2-2.2	5	11	14	5	35
2.2-2.4	4	3	6	1	14
2.4-2.6	5	0	0	0	6
2.6-2.8	1	0	0	0	1
Grand Total	23	30	36	11	100

- All cars produced now would have to stretch to reach the 2X threshold.
- A low stretch value means that a car's starting fuel economy exceeds the baseline -- it needs less than 2X improvements to meet the 2X target.
- A higher stretch value means that a car's starting fuel economy is below the baseline -- it must improve more than 2X to meet the 2X target.

Trucks:

- Two classes: 2-wheel drive, 4-wheel drive
- Within each class, fuel economy targets based on Gross Vehicle Weight Rating

Fuel Economy Baseline for Light Trucks		
Gross vehicle weight rating	Two wheel drive	Four wheel drive
3000	31.9	31.3
3500	29.4	28.3
4000	27.0	25.7
4500	25.0	23.3
5000	23.1	21.3
5500	21.5	19.6
6000	20.0	18.2
6500	18.9	17.1
7000	17.9	16.4
7500	17.2	16.0
8000	16.6	15.9
8500	16.4	15.9

- Eligible trucks must meet targets that are two or three times these numbers.

How Far the 1998 Trucks Would Need to Stretch for the 2X Target			
2X Stretch	Two wheel drive (%)	Four wheel drive (%)	Grand Total (%)
1.4-1.6	0	0	0
1.6-1.8	6	2	8
1.8-2	28	17	45
2-2.2	14	24	38
2.2-2.4	7	2	9
2.4-2.6	0	0	0
2.6-2.8	0	0	0
Subtotal	55	45	100

- Light trucks produced now would have to stretch to reach the 2X target.